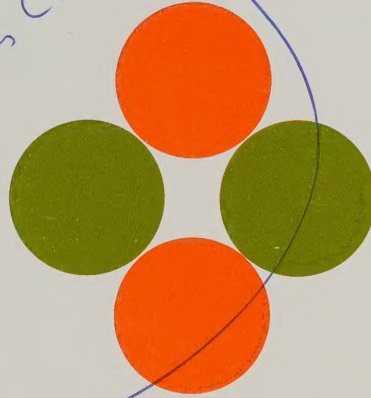


Canary

file

Stores C.H.

Sobey's



1975 Annual Report



Digitized by the Internet Archive
in 2023 with funding from
University of Alberta Library

https://archive.org/details/Sobe1131_1975

Sobeys Stores Limited

29th Annual Report

Year Ended May 3, 1975



Directory

Directors

Merritt G. Crawford
William G. Lumsden
Arthur R. Lundrigan
J. Skiffington Murchie
Henry B. Rhude
David F. Sobeys
Donald R. Sobeys
Frank H. Sobeys
Harold M. Sobeys
William M. Sobeys
Charles E. Stanfield
Arthur Steele

*New Glasgow, Nova Scotia
Burlington, Ontario
Corner Brook, Newfoundland
New Glasgow, Nova Scotia
Halifax, Nova Scotia
New Glasgow, Nova Scotia
Stellarton, Nova Scotia
Abercrombie, Nova Scotia
New Glasgow, Nova Scotia
Stellarton, Nova Scotia
Truro, Nova Scotia
Middleton, Nova Scotia*

Officers

Frank H. Sobeys
William M. Sobeys
David F. Sobeys
J. Skiffington Murchie
Harold M. Sobeys
D. B. Eddy
Frank J. Hickey
Merritt G. Crawford
J. Robert MacMillan

*Honorary Chairman
Chairman and Chief Executive Officer
President
Executive Vice-President
Vice-President
Vice President, Personnel & Public Relations
Vice-President, Merchandising
Treasurer
Secretary*

Head Office

Stellarton, Nova Scotia
Established 1906
Incorporated 1946

Transfer Agent and Registrar

Montreal Trust Company
Montreal — Toronto
Saint John — Halifax

Auditors

H. R. Doane and Company

Bankers

The Bank of Nova Scotia

To the Shareholders

We are pleased to report continued gains in volume of food operations. Despite the difficulty and uncertainty of the general economy, sales (before rental income) reached a new high of \$181,000,000 — 19% above last year. Had the Company not suffered the effect of two serious fires, the increase in sales would have been substantially higher.



Net income after preferred share dividends and before extraordinary items was \$680,000 or 88¢ per common share. Extraordinary items of \$322,000 contributed an additional 41¢ to common share earnings. The Company is dissatisfied with its earnings position and is making every effort to show continued improvement.



Dividends of 40¢ per Class A Common Share, as well as dividends on the 6 $\frac{1}{4}$ % Preferred Shares were paid during this period.

While a major portion of the Company's revenue was from food operations, its interest in and growth of real estate from its subsidiaries Atlantic Shopping Centres Limited, Canadian Shopping Centres Limited, and Food City Limited, has resulted in over 50% of total assets being in real estate. This real estate, while contributing substantially to earnings, has resulted in a lower working capital position than is normal for a retail business.

Cash flow amounted to \$4.43 per common share; working capital was \$1,044,000.



Sales and earnings continued at a satisfactory rate at LUMSDEN BROTHERS LIMITED in Burlington, Ontario. A new produce warehouse operation has been purchased by the company and new frozen food distribution facilities are under construction — this will be in operation, August, 1975.

LUMSDENS now offer their customers a complete food merchandising program and the outlook for their continued growth is excellent.



After the fire, last year, which destroyed the T.R.A. FOODS LIMITED main distribution facilities in Middleton, Nova Scotia, a new modern building has been opened and is surpassing the volume of the previous operation. Additional merchandising programs are being developed by the company to assist its customers.

Other T.R.A. operations and subsidiaries in Nova Scotia are progressing satisfactorily.



ATLANTIC SHOPPING CENTRES LIMITED in conjunction with Simpsons Limited, has brought to completion the Simpsons Mall in Halifax, Nova Scotia. This Mall will open in August, 1975. At Downsview Mall in Sackville, Nova Scotia, a K-Mart and three theatres have been constructed.

ATLANTIC is aggressively planning the development of additional projects.



The Company's retail stores division is continuing to experience difficulties in improving earnings. Costs, and in particular, wage costs are increasing at an alarming rate. Supplier cost increases continue and the highly competitive nature of the retail food industry has not always allowed us to pass on these increases.

Despite less than satisfactory earnings, expansion of the retail food division has continued with the opening of stores in Stephenville and St. John's, Newfoundland and Summerside, Prince Edward Island. As well, the Company has continued its modernization program of eliminating or replacing smaller and less profitable operations while modernizing and re-equipping good key locations. Two stores were closed, the retail areas of three existing stores were enlarged and modernized and two additional units are presently under construction in Halifax, Nova Scotia and Gaspé, Quebec. This modernization and expansion is a major factor in maintaining the Company's position in the food retailing and distribution industry in Atlantic Canada.

While continued inflationary pressures and consumer resistance is expected during the foreseeable future, improved operations and internal economies should provide more acceptable sales levels and increased earnings.



Achievements of this past year were made possible by the dedication and co-operation of all employees and for this, the Company is deeply grateful.

Financial Highlights

	<u>1975</u>	<u>1974</u>
Net Sales	\$181,337,000	\$151,927,000
Earnings Before Taxes & Minority Interest	\$ 1,588,000	\$ 1,082,000
Earnings Before Extraordinary Items & Preferred Share Dividends	\$ 758,000	\$ 425,000
Earnings Per Share Before Extraordinary Items	\$.88	\$.45
Shares Outstanding	774,860	774,860
Shareholders' Equity	\$ 9,593,000	\$ 8,784,000
Equity Per Common Share	\$ 10.77	\$ 9.72

WILLIAM M. SOBEY

Chairman and Chief Executive Officer

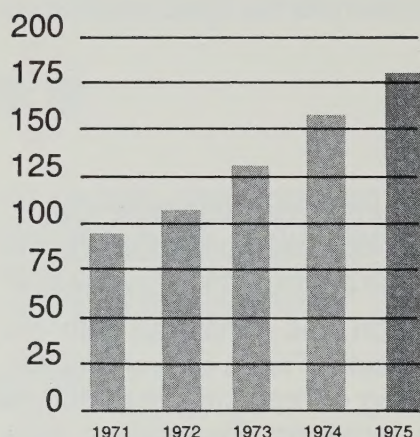
DAVID F. SOBEY

President

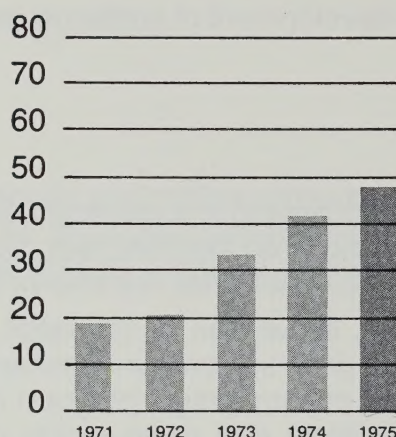
Consolidated Five Year Review



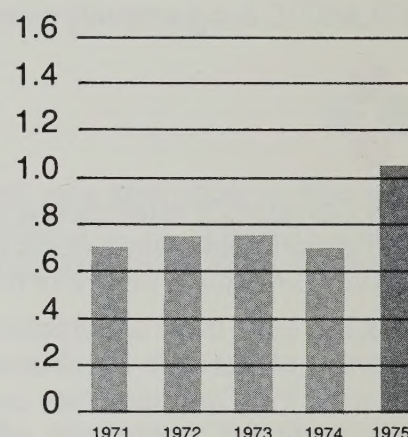
Sales
(millions of dollars)



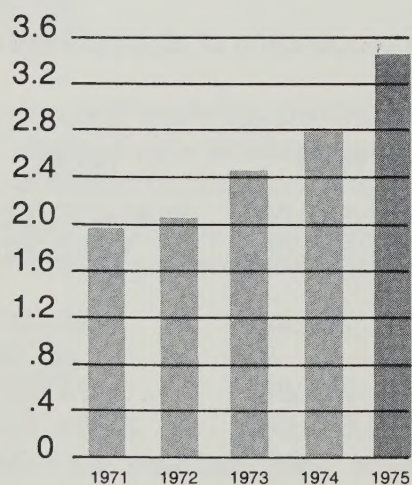
Fixed Assets
(millions of dollars)



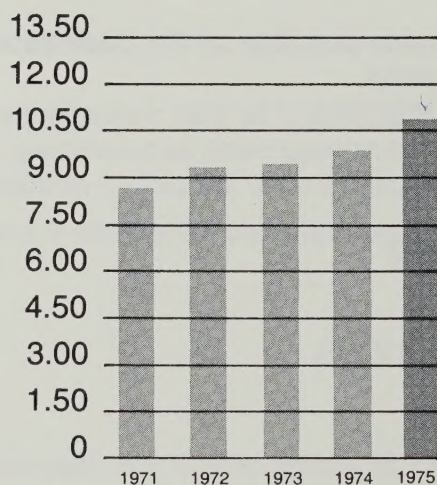
Net Income
(millions of dollars)



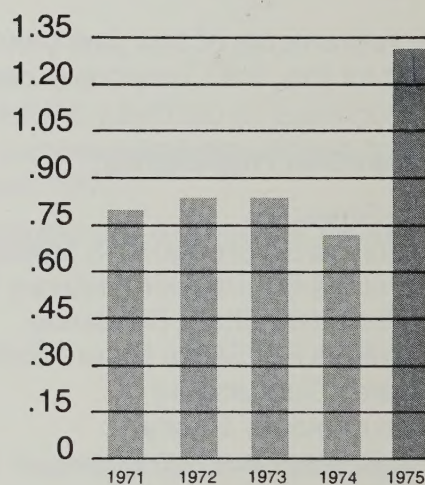
Cash Flow
(millions of dollars)



Equity Per Share
(dollars)



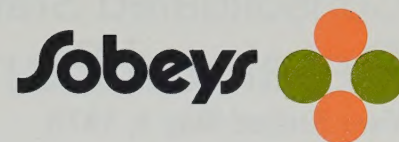
Earnings Per Common Share
(dollars)



Consolidated Statement of Earnings

Year Ended May 3, 1975

Stellata NS



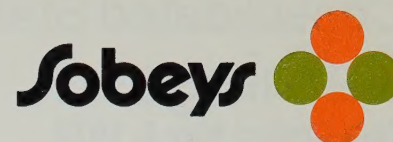
	1975	1974
Revenue		
Sales	\$181,337,481	\$151,926,711
Rentals	6,491,163	5,107,391
	187,828,644	157,034,102
Cost of sales, selling and administrative expenses	181,161,619	151,715,736
	6,667,025	5,318,366
Depreciation	1,952,264	1,629,666
Interest on long term debt	2,741,279	2,278,745
Interest on current debt	567,270	562,978
	5,260,813	4,471,389
Earnings before other items	1,406,212	846,977
Gain on sale of property and investments	181,508	234,803
Earnings before income taxes and minority interest	1,587,720	1,081,780
Income taxes (Note 5)		
Current	336,266	215,427
Deferred	386,754	341,459
	723,020	556,886
	864,700	524,894
Minority interest	106,474	99,696
Earnings before extraordinary items	758,226	425,198
Extraordinary items (Note 6)	321,990	217,831
Net earnings	\$ 1,080,216	\$ 643,029
Earnings per common share before extraordinary items	\$.88	\$.45
Extraordinary items	.41	.28
Earnings per common share	\$ 1.29	\$.73
Cash flow per share	\$ 4.43	\$ 3.49

disposal of its interest in Centre Ltd. about 8.68
1,080,216
181,508
898,708

643,029
234,803
408,226

Consolidated Statement of Retained Earnings

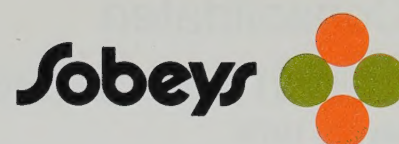
Year Ended May 3, 1975



	1975	1974
Balance, beginning of year		
As previously reported	\$4,857,329	\$4,850,627
Adjustment of prior years' taxes	25,161	(307,610)
As restated	4,882,490	4,543,017
Net earnings	1,080,216	643,029
Transfer from capital redemption reserve fund	244,520	
Excess of net assets acquired over consideration paid		91,501
	<u>6,207,226</u>	<u>5,277,547</u>
Dividends paid		
Preference	77,845	80,174
Class "A" common	208,344	208,344
Class "B" common		76,200
Redemption of preference shares	10,860	55,500
	<u>297,049</u>	<u>420,218</u>
Balance, end of year	<u>\$5,910,177</u>	<u>\$4,857,329</u>

Consolidated Statement of Changes in Financial Position

Year Ended May 3, 1975



	1975	1974
Source		
Operations		
Net income	\$1,080,216	\$ 643,029
Depreciation	1,952,264	1,629,666
Deferred income taxes	353,045	341,459
Minority interest	44,942	91,146
	<u>3,430,467</u>	<u>2,705,300</u>
Decrease (increase) in mortgages, loans and notes receivables	(1,549)	13,404
Proceeds from long term debt		
Real estate	3,590,892	9,734,948
Merchandising	717,904	
Minority interest		464,122
Excess of net assets acquired over consideration paid		91,501
	<u>7,737,714</u>	<u>13,009,275</u>
Application		
Net additions to property		
Real estate	3,213,674	8,741,972
Merchandising	2,579,467	2,547,106
Repayment of long term debt including current maturities	2,118,919	1,406,541
Redemption of preference shares	10,860	55,500
Dividends	286,189	364,718
Income tax reassessments	(108,473)	60,169
	<u>8,100,636</u>	<u>13,176,006</u>
Decrease in working capital	362,922	166,731
Working capital, beginning of year	1,406,771	1,573,502
Working capital, end of year	<u>\$1,043,849</u>	<u>\$ 1,406,771</u>

Consolidated Balance Sheet

May 3, 1975

ASSETS

	1975	1974
Current		
Cash	\$ 2,741,399	\$ 3,106,843
Marketable securities, at cost (market value \$1,532,486; 1974 \$2,228,412)	1,411,215	1,670,760
Receivables		
Trade	4,673,480	3,633,496
Loans	320,026	2,213,097
Inventories, at cost	12,649,226	11,732,533
Prepaid expenses	607,122	562,818
	<u>22,402,468</u>	<u>22,919,547</u>
Mortgages and loans receivable	<u>122,185</u>	<u>120,636</u>
Real estate		
Property, at cost		
Land and interest in land leases	4,881,451	4,299,036
Buildings	32,310,144	29,735,582
	<u>37,191,595</u>	<u>34,034,618</u>
Accumulated depreciation	1,777,172	1,521,555
	<u>35,414,423</u>	<u>32,513,063</u>
Investment in joint ventures, at equity	106,489	52,500
Other assets	442,268	536,748
	<u>35,963,180</u>	<u>33,102,311</u>
Merchandising		
Property, at cost		
Land	723,450	1,100,033
Buildings and parking facilities	3,975,829	3,314,967
Equipment	11,041,235	9,974,365
Leasehold improvements	2,675,412	2,059,706
	<u>18,415,926</u>	<u>16,449,071</u>
Accumulated depreciation	6,584,874	5,598,027
	<u>11,831,052</u>	<u>10,851,044</u>
	<u><u>\$70,318,885</u></u>	<u><u>\$66,993,538</u></u>



LIABILITIES

	1975	1974
Current		
Bank loans (Note 2)	\$ 4,557,279	\$ 4,076,595
Banker's acceptance	1,500,000	1,500,000
Other loans	230,000	70,000
Payables and accruals	14,650,547	15,342,557
Long term debt payable within one year (Note 3)	271,863	388,000
Income taxes payable	148,930	135,624
	<u>21,358,619</u>	<u>21,512,776</u>
Long term debt (Note 3)		
Real estate	28,640,644	25,942,362
Merchandising	5,018,750	5,527,155
	<u>33,659,394</u>	<u>31,469,517</u>
Minority interest	<u>902,942</u>	<u>858,000</u>
Deferred income taxes	<u>4,805,223</u>	<u>4,368,866</u>

SHAREHOLDERS' EQUITY

Capital stock (Note 4)

Authorized		
237,774 (1974-250,000) 6 ¹ / ₄ % cumulative redeemable preference shares of \$20 par value each, issuable in series		
750,000 Class "A" common shares without nominal or par value		
500,000 Class "B" common shares without nominal or par value		
Issued and outstanding		
62,231 (1974-62,774) preference shares, 1966 series	1,244,620	1,255,480
520,860 Class "A" common shares	1,739,850	1,739,850
254,000 Class "B" common shares	687,200	687,200
	<u>3,671,670</u>	<u>3,682,530</u>
Capital redemption reserve fund	10,860	244,520
Retained earnings	<u>5,910,177</u>	<u>4,857,329</u>
	<u>9,592,707</u>	<u>8,784,379</u>
	<u>\$70,318,885</u>	<u>\$66,993,538</u>

On behalf of the Board

WILLIAM M. SOBEY
Director

DAVID F. SOBEY
Director

Notes to Consolidated Financial Statements

May 3, 1975

1. Accounting policies

A) Principles of consolidation

The consolidated financial statements include the assets, liabilities and results of operations of the following companies and their subsidiaries:

Atlantic Shopping Centres Limited
T. R. A. Foods Limited
Lumsden Brothers Limited

B) Depreciation and amortization

Real estate property

The sinking fund method is used to record depreciation on the real estate buildings, calculated as an amount which, compounded annually at the rate of 5% will fully amortize the cost of the buildings over 40 years. Equipment is depreciated on a diminishing balance basis at an annual rate of 20%.

Merchandising property

Depreciation of buildings and equipment is provided on a straight-line basis over the estimated useful life of these assets which varies from seven to twenty-five years. Leasehold improvements are amortized over the term of the related lease.

C) Capitalization of costs

Expenses relating to construction in progress and certain lands have been capitalized as part of the cost of the property.

D) Joint ventures

The equity method of accounting is used for investments in joint ventures.

2. Bank loans

The bank loans are secured by an assignment of certain receivables and marketable securities.

3. Long term debt

	<u>1975</u>	<u>1974</u>
Real estate		
Term financing		
9% second mortgage	\$ 1,050,000	\$ 1,050,000
7% note and mortgage payable	271,605	395,605
Construction demand loans and advances (prime rate plus 1 ³ / ₄ % to 2%)	7,062,000	5,671,108
	<u>8,383,605</u>	<u>7,116,713</u>
Permanent financing		
9 ³ / ₄ % first mortgage loan to April 15, 1976	229,768	236,030
9 ¹ / ₂ % first mortgage loan to February 15, 1977	3,338,281	3,381,368
10 ¹ / ₂ % first mortgage loan to 1979	105,034	108,433
7% debentures to April 1, 1980	260,000	280,000
9 ³ / ₄ % debentures to January 15, 1981	500,000	500,000
6 ¹ / ₄ % first mortgage sinking fund bonds to January 2, 1982	476,000	511,000
6 ¹ / ₂ % first mortgage sinking fund bonds to October 1, 1982	157,000	167,500
9% first mortgage loan to October 1, 1987	3,420,000	3,572,000
10% debentures to October 1, 1993	3,210,000	3,250,000
9 ⁵ / ₈ % first mortgage sinking fund bonds to January 15, 1994	3,660,000	3,700,000
9% first mortgage loan to July 30, 1997	2,300,000	2,400,000
Mortgages maturing in installments to 1989 with interest rates of 6%-10 ¹ / ₂ %	32,206	45,568
Bank loan, at a rate fluctuating with the prime rate with annual installments of \$35,000 to 1980	638,750	673,750
Bank loan, at a rate fluctuating with the prime rate, to 1981	1,930,000	
	<u>20,257,039</u>	<u>18,825,649</u>
	<u>\$28,640,644</u>	<u>\$25,942,362</u>

Notes to Consolidated Financial Statements

May 3, 1975

3. Long term debt (cont'd)

Debt retirement payments in each of the next five years are:

	Term	Permanent
1976	\$ 460,000	\$ 529,000
1977	\$1,754,500	\$ 741,700
1978	\$2,437,605	\$ 953,950
1979	\$1,382,000	\$ 972,750
1980	\$1,292,000	\$1,154,550

The amount due within one year has not been included under current liabilities. In the real estate operations, the amount will be financed in the same period from rental income under lease agreements which has not been included in accounts receivable.

Merchandising			1975	1974
Sinking fund debentures				
Series	Maturity			
C	4 ³ / ₄ %	September 1, 1975	\$ 215,000	\$ 230,000
D	6%	May 1, 1977	345,000	367,500
E	6%	March 1, 1981	580,000	610,000
F	6%	April 1, 1984	670,000	700,000
G	5 ³ / ₄ %	April 15, 1985	350,000	365,000
H	6%	November 1, 1985	730,000	760,000
I	7 ¹ / ₄ %	June 15, 1987	790,000	820,000
J	8 ¹ / ₂ %	March 1, 1989	820,000	850,000
			4,500,000	4,702,500
Loans				
9 ³ / ₄ % loan maturing in 1975				250,000
9 ¹ / ₄ % loan maturing in 1985				880,000
10 ³ / ₄ % mortgage maturing in 1980, amortized to 1995			695,000	
Mortgages, maturing to 1979 with interest rates at 9 ¹ / ₄ %-12 ¹ / ₂ %			251,113	238,551
			5,446,113	6,071,051
Current maturities (including bonds held for sinking fund purposes)			427,363	543,896
			\$5,018,750	\$5,527,155

Debt retirement payments in each of the next five years are:

1976-\$427,363 1977-\$524,000 1978-\$185,205
1979-\$186,279 1980-\$182,680

4. Capital stock

The 1966 series preference shares may be called at par at any time. The company is required to provide a \$30,000 fund each year, from which shares may be purchased for redemption. In 1975, 231 shares were purchased and cancelled, reducing the preference capital to \$1,244,620 and \$10,860 has been transferred to the capital redemption reserve fund.

During the year, the company reduced its authorized preference share capital by 12,226 shares and transferred \$244,520 from the capital redemption reserve fund to retained earnings.

The company has reserved a maximum of 20,000 unissued Class "A" common shares to satisfy the conditions relating to share purchase warrants issued with the sinking fund debentures, Series J. These share purchase warrants entitle the bearers thereof to purchase 20,000 Class "A" common shares at the subscription price of \$12 per share up to March 1, 1979. If these warrants were exercised, earnings per share would be diluted by \$.03.

5. Income taxes

As at May 3, 1975 the company and its subsidiaries had accumulated losses of approximately \$564,000 which may be applied to reduce future income taxes payable.

6. Extraordinary items

Insurance proceeds in excess of the net book value of building and equipment destroyed by fire	\$467,664
Excess of purchase price over fair value of net tangible assets acquired (less deferred income taxes of \$33,709 and minority interest of \$36,418)	145,674
	<u>\$321,990</u>

Notes to Consolidated Financial Statements

May 3, 1975

7. Commitments

Outstanding contract

A subsidiary company has contracted for the construction of an additional building in the amount of \$502,900. Medium term financing has been arranged for this project. At May 3, 1975 costs of this project amounted to \$228,088 and are included in the cost of buildings.

The company has an obligation to provide financing for construction cost overruns, if any, incurred by the joint venture projects. The obligation is related to the company's interest in the joint venture projects.

Long term leases

During the year the company paid \$2,744,000 in rentals under lease agreements extending beyond five years from the balance sheet date. The company also received \$6,491,000 rental income as lessor under long term leases.

8. Contingent liabilities

The company has undertaken by separate agreement to provide cash to meet any obligations which Sobey Leased Properties Limited is unable or fails to meet until all of their debentures have been paid in full in accordance with their terms. Any deficiency payment made by the company will be in consideration of the issue to it of an appropriate number of fully paid and non-assessable 6% redeemable, non-voting preference shares. At balance sheet date the aggregate outstanding principal amounts of these debentures is \$1,654,500.

The company has guaranteed the following obligations relating to projects under development:

Sobey Leased Properties Limited	\$ 250,000
Stephenville Mall Limited	\$ 850,000
Granville Developments Limited	\$1,500,000

9. Comparative figures

The figures for the previous year have been reclassified, where necessary, to conform with the current year's presentation.

Auditors' Report

To the Shareholders of
Sobeys Stores Limited

We have examined the consolidated balance sheet of Sobeys Stores Limited as at May 3, 1975 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended and have obtained all the information and explanations we have required. Our examination of the financial statements of Sobeys Stores Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of the subsidiary company, Lumsden Brothers Limited.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the companies, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the financial position of the companies as at May 3, 1975 and the results of their operations and changes in financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

H. R. Doane and Company
Chartered Accountants

New Glasgow, Nova Scotia
June 27, 1975

Consolidated Ten Year History



Operations	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966
Depreciation	\$ 1,952,264	\$ 1,629,666	\$ 1,244,903	\$ 1,006,834	\$ 937,992	\$ 759,471	\$ 664,027	\$ 577,885	\$ 528,809	\$ 527,106
Interest on long term debt	2,741,279	2,278,745	1,140,067	748,739	805,987	436,941	328,009	312,920	263,076	248,133
Cash flow	3,430,467	2,705,300	2,424,114	2,074,443	1,826,278	2,347,505	2,105,345	2,016,951	1,579,791	1,336,179
Income taxes	723,020	556,886	512,813	389,924	371,031	700,006	640,044	638,715	491,708	431,455
Gain on sale of fixed assets and investments	181,508	234,803	129,482	165,409	165,841	285,377	130,308	106,183	200,411	214,961
Net income after provision for income taxes	1,080,216	643,029	742,492	742,959	677,503	988,337	829,712	807,764	752,952	664,315

Shareholders information

Cash flow per share	4.43	3.49	3.12	2.68	2.42	3.20	2.87	2.73	2.20	1.90
Equity per share	10.77	9.72	9.24	9.15	8.89	8.44	7.73	8.35	7.81	6.76
Preferred share dividend	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	
Common share earnings	1.29	.73	.85	.85	.78	1.23	1.01	.98	.98	.97
Common A share dividend	.40	.40	.40	.40	.39	.36	.36	.32	.32	.27
Average number of common shares outstanding*	774,860	774,860	774,860	774,860	753,860	732,860	732,860	729,860	716,860	693,430

Financial position

Working capital	1,043,849	1,406,771	1,573,502	2,325,738	2,299,736	1,269,225	1,764,079	1,641,712	457,993	1,747,417
Fixed assets	47,245,475	43,364,107	33,964,804	21,860,504	19,160,180	18,240,269	13,695,220	12,686,570	12,111,762	7,870,999
Long term debt	33,659,394	31,469,517	22,720,485	12,409,322	10,050,998	8,747,689	5,875,562	5,056,059	4,384,680	4,416,000
Net tangible assets per \$1,000 debenture	4,734	4,114	3,735	3,533	3,300	3,116	2,729	2,908	2,944	2,179

*adjusted for stock split

